

DOWAGIAC HOUSING COMMISSION
DOWAGIAC, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Dowagiac Housing Commission	County Cass
Fiscal Year End September 30, 2006	Opinion Date February 22, 2007	Date Audit Report Submitted to State April 30, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


SM
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Compliance and Internal Control	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Ave.		City Traverse City	State MI
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA	Zip 49686
		License Number 11050	

DOWAGIAC HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Dowagiac Housing Commission
Dowagiac, Michigan

I have audited the accompanying financial statements of the business-type activities of the Dowagiac Housing Commission, Michigan, a component unit of the City of Dowagiac, as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Dowagiac Housing Commission, Michigan, as of September 30, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Dowagiac Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated February 22, 2007, on my consideration of Dowagiac Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Dowagiac Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Dowagiac Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barry E. Anderson, CPA

February 22, 2007

DOWAGIAC HOUSING COMMISSION
DOWAGIAC, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
September 30, 2006
=====

The Dowagiac Housing Commission, created in 1970, by the City of Dowagiac provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Dowagiac Housing Commission consists of four programs. The first is owned housing, consisting of 86 units of public housing, the second is the capital funding program, and the third is the housing choice voucher program consisting of 92 qualifying low-income residents for rental housing, and the Housing Commission also has an agreement with Tri City Village (a nonprofit organization in Watervliet) to collect HUD grant monies to operate 56 low-income units under the Section 8 New Construction Program under Contract C-8077.

Dowagiac Housing Commission had total revenues of \$1,200,990 that includes \$170,242 in rental payments and \$1,011,333 in federal assistance. Total revenues decreased by \$56,190 from the prior year, in part, because of federal grant and rent decreases compared to the prior year. Total operating expenses were \$1,249,310, that includes \$191,200 in administrative expenses, \$104,496 in utilities, \$137,560 in ordinary maintenance and operation, \$615,071 in housing assistance payments, and \$163,781 in depreciation expense. The operating expenses decreased by \$47,822, in part, because of Housing Assistance payments decreasing from the prior year due to not leasing up all available vouchers.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$1,171,693. The Housing Commission's total net assets decreased by \$48,320 from the prior year.

Total assets of the Housing Commission were \$1,230,346; there was a net decrease of \$84,962 from the prior year as a result of applying accumulated depreciation \$163,781 and net additions of \$63,950.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Current assets	\$ 261,727	\$ 246,858	\$ 14,869
Capital assets	<u>968,619</u>	<u>1,068,450</u>	<u>(99,831)</u>
Total assets	<u>\$1,230,346</u>	<u>\$1,315,308</u>	<u>\$ (84,962)</u>
Current liabilities	\$ 47,326	\$ 76,876	\$ (29,550)
Noncurrent liabilities	<u>11,327</u>	<u>18,419</u>	<u>(7,092)</u>
Total liabilities	<u>58,653</u>	<u>95,295</u>	<u>(36,642)</u>
Net assets:			
Invested in capital assets	956,855	1,051,964	(95,109)
Unrestricted	<u>214,838</u>	<u>168,049</u>	<u>46,789</u>
Total net assets	<u>1,171,693</u>	<u>1,220,013</u>	<u>(48,320)</u>
Total liabilities and net assets	<u>\$1,230,346</u>	<u>\$1,315,308</u>	<u>\$ (84,962)</u>

The following table of summarizes the Statement of Activities of the Housing Commission for the years ended September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 170,242	\$ 178,121	\$ (7,879)
Nondwelling rent		<u>7,702</u>	<u>(7,702)</u>
Total operating revenues	<u>170,242</u>	<u>185,823</u>	<u>(15,581)</u>
Operating expenses:			
Administration	191,200	172,831	18,369
Tenant services	7,260	8,463	(1,203)
Utilities	104,496	92,403	12,093
Ordinary maintenance and operation	137,560	135,794	1,766
General expenses	27,852	27,475	377
Interest expense	2,090	1,825	265
Casualty losses		(971)	971
Housing assistance payments	615,071	697,772	(82,701)
Depreciation	<u>163,781</u>	<u>161,540</u>	<u>2,241</u>
Total operating expenses	<u>1,249,310</u>	<u>1,297,132</u>	<u>(47,822)</u>
Non-operating revenue:			
Fraud recovery	408	15	393
Gain on sale of assets		1,200	(1,200)
Interest income	6,543	4,257	2,286
Operating grants	949,663	985,582	(35,919)
Capital grants	61,670	75,464	(13,794)
Other income	<u>12,464</u>	<u>4,829</u>	<u>7,635</u>
Total nonoperating revenue	<u>1,030,748</u>	<u>1,071,347</u>	<u>(40,599)</u>
Change in Net Assets	<u><u>\$ (48,320)</u></u>	<u><u>\$ (39,962)</u></u>	<u><u>\$ (8,358)</u></u>

Commission's Position

The financial position is improving based on the fact that vacant units are being leased up quicker. Tenants are no longer able to get months behind. They are immediately taken to the attorney or they must pay in full. Overtime must be approved in advance. The overtime has been reduced considerably. All Vouchers are being utilized to increase lease-up and increase administrative fees.

We have just completed the upgrade of (27) apartments. There were several new roof replacements in the family units, in the amount of \$116,000. In addition, a new generator was installed at the cost of \$24,000. With our new Capital Funds budget we will upgrade (33) senior kitchens at the cost of \$65,000. In addition, we are looking to rekey all locks for senior, and family units; no cost as of yet.

We are currently evaluating all staff positions to see that qualifications matches pay. Also, we are looking into energy efficient windows for all units. We are also inquiring into an energy saving contract along with a physical need study. We are looking into residents paying for additional utilities to decrease the burden on the agency as well as tenant paid cable.

At this present time, other than described in the previous paragraphs, there no known facts, decisions or conditions that are expected to have a significant effect on our financial position or results of operations.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Sandra Freeman, Executive Director
100 Chestnut Street, Dowagiac, MI 49047

FINANCIAL STATEMENTS

DOWAGIAC HOUSING COMMISSION
STATEMENT OF NET ASSETS
September 30, 2006
=====

ASSETS

Current Assets:	\$	221,437
Cash		9,278
Accounts receivable-HUD		6,948
Accounts receivable-tenants	(1,234)
Allowance for doubtful accounts		40
Accrued interest receivable		17,584
Investments-unrestricted		<u>7,674</u>
Prepaid expenses		
Total Current Assets		<u>261,727</u>
Capital Assets:		62,513
Land		3,540,867
Buildings		332,034
Equipment		239,675
Building improvements		<u>24,701</u>
Construction in progress		4,199,790
Less: accumulated depreciation		<u>(3,231,171)</u>
Net Capital Assets		<u>968,619</u>
Total Assets	\$	<u><u>1,230,346</u></u>

See notes to financial statements

DOWAGIAC HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2006
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 18,828
Tenant security deposit liability	19,644
Accrued expenses	4,171
Deferred revenues	118
Current portion of long-term debt	<u>4,565</u>
Total Current Liabilities	<u>47,326</u>
Noncurrent Liabilities:	
Long-term debt, net of current	7,199
Accrued compensated absences	<u>4,128</u>
Total Noncurrent Liabilities	<u>11,327</u>
Total Liabilities	<u>58,653</u>
Net Assets:	
Invested in capital assets	956,855
Unrestricted net assets	<u>214,838</u>
Total Net Assets	<u>1,171,693</u>
Total Liabilities and Net Assets	<u>\$ 1,230,346</u>

See notes to financial statements

DOWAGIAC HOUSING COMMISSION
STATEMENT OF ACTIVITIES
 Year Ended September 30, 2006
 =====

OPERATING REVENUES:	
Dwelling rent	\$ <u>170,242</u>
Total operating revenues	<u>170,242</u>
OPERATING EXPENSES:	
Administration	191,200
Tenant services	7,260
Utilities	104,496
Ordinary maintenance and operation	137,560
General expenses	27,852
Interest expense	2,090
Housing assistance payments	615,071
Depreciation	<u>163,781</u>
Total operating expenses	<u>1,249,310</u>
Operating income(loss)	<u>(1,079,068)</u>
NONOPERATING REVENUES:	
Investment interest income	6,543
Fraud recovery	408
Other income	12,464
Capital grants	61,670
Operating grants	<u>949,663</u>
Total nonoperating revenues	<u>1,030,748</u>
Change in net assets	(48,320)
Prior period adjustments, equity transfers and correction of errors	(13,803)
Net assets, beginning	<u>1,233,816</u>
Net assets, ending	<u>\$ 1,171,693</u>

See notes to financial statements

DOWAGIAC HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended September 30, 2006
=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 169,493
Cash payments to other suppliers of goods and services	(875,130)
Cash payments to employees for services	(206,337)
Cash payments for in lieu of taxes	<u>(8,070)</u>
Net cash (used) by operating activities	<u>(920,044)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Tenant security deposits	1,063
Operating grants	928,917
Fraud recovery	408
Other revenue	<u>12,464</u>
Net cash provided by noncapital financing activities	<u>942,852</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal payments of debt	(4,722)
Capital grants	61,670
Payments for capital acquisitions	<u>(63,950)</u>
Net cash (used) by capital and related financing activities	<u>(7,002)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments (increased)decreased	(647)
Receipts of interest and dividends	<u>6,531</u>
Net cash provided by investing activities	<u>5,884</u>

Net increase(decrease) in cash	21,690
Cash, beginning	<u>199,747</u>
Cash, ending	<u>\$ 221,437</u>

DOWAGIAC HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2006
=====

**RECONCILIATION OF CASH AND CASH EQUIVALENTS
PER STATEMENT OF CASH FLOWS TO THE BALANCE
SHEET:**

Cash	\$ 221,437
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u><u>\$ 221,437</u></u>

**SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:**

Operating income(loss)	\$(1,079,068)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	163,781
Bad debt allowance	626
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(758)
Prepaid expenses	230
Increase (decrease) in liabilities:	
Accounts payable	1,027
Accrued wage/payroll taxes payable	(499)
Accrued compensated absences	(3,502)
Accounts payable-PILOT	(1,890)
Deferred revenues	<u>9</u>
Net cash (used) by operating activities	<u><u>\$(920,044)</u></u>

See notes to financial statements

DOWAGIAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Dowagiac Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Dowagiac Housing Commission is a component unit of the City of Dowagiac, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Dowagiac on September 2, 1970, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Dowagiac Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3072, the Housing Commission constructed, maintains and operates 86 units of subsidized housing in the City of Dowagiac, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 92 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and that under the Housing Choice Vouchers program the Housing Commission receives a HAP allocation in addition to administrative fees.

The Housing Commission has an agreement with Tri City Village (a nonprofit organization in Watervliet) to collect HUD grant monies to operate 56 low-income units under the Section 8 New Construction Program under Contract C-8077.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which

rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases(revenues) and decreases(expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Dowagiac Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$300 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Equipment and furnishings	5 - 10 years
Building improvements	5 - 20 years

Long-Term Obligations

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund type statement of net assets.

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of

providing services. Amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation time is not cumulative and shall be taken during the calendar year following the one in which it was earned. If unused vacation time is not taken as directed, the unused vacation time will be forfeited and may not be carried over into the next succeeding year.
- * Sick pay is earned at a rate of one day per month and can accumulate without limit. Unused sick pay is paid out at 50 percent upon termination to a maximum of sixty (60) days with several restrictions.
- * Personal leave may be granted for personal reasons without pay.

The amount of accumulated benefits at September 30, 2006, was \$5,516, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program, Housing Choice Voucher Program, and Section

8 New Construction Program funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent and Section 8 New Construction Program accounts.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$221,137 and the bank balance was \$270,164 of which \$270,164 was covered by federal depository insurance. The Housing Commission also has \$300 in petty cash.

Investments

The Housing Commission had the following investments in a certificate of deposit as September 30, 2006:

Berrien Teachers Credit Union (CD #9113422, suffix 331) \$ 17,584

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the statement of net assets is as follows:

Cash on hand	\$ 300
Carrying amount of deposits	221,137
Investments	<u>17,584</u>
Total	<u>\$ 239,021</u>
Cash and cash equivalents:	
Enterprise activities	\$ 288,048
Enterprise activities - deposits in transit	24,200
Enterprise activities - checks written in excess of deposits	<u>(73,227)</u>
Total	<u>\$ 239,021</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2006, the receivables were \$6,948 with \$1,234 estimated as uncollectible. Bad debt expense was \$3,406.

Accounts Payable - HUD

Amounts due to HUD represents overfunding the Housing Commission has received. Balances at September 30, 2006 were as follows:

Capital Fund Program	<u>\$ 9,278</u>
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Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$ 23,109	Capital Fund Program	\$ 9,278
		Housing Choice Voucher Program	11,356
		New Construction Program	<u>2,475</u>
	<u>\$ 23,109</u>		<u>\$ 23,109</u>

The capital fund program transferred \$10,840 to the Low Rent Program during the fiscal year ended September 30, 2006.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Balance 09/30/05</u>	<u>Additions/Retirements/ Transfers</u>	<u>Balance 09/30/06</u>
Low Rent Program			
Land	\$ 62,513	\$	\$ 62,513
Buildings	3,488,633	34,702	3,523,335
Furniture, equip. & machinery - dwellings	63,142	20,828	83,970
Furniture, equip. & machinery - administration	177,404	16,092	193,496
Building improvements	<u>231,962</u>	<u>7,713</u>	<u>239,675</u>
	4,023,654	<u>\$ 79,335</u>	<u>\$ 4,102,989</u>
Less accumulated depreciation	<u>(3,028,807)</u>	<u>\$(168,998)</u>	<u>(3,197,805)</u>
Total	<u>\$ 994,847</u>		<u>\$ 905,184</u>

	<u>Balance</u> <u>09/30/05</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>09/30/06</u>
Capital Fund Program				
Buildings	\$ 37,559	\$ 12,691	\$ 34,702	\$ 15,548
Furniture, equip. & machinery - dwellings	20,828		20,828	
Furniture, equip. & mach.-admin.	13,811	26,558	16,092	24,277
Building improvements	7,713		7,713	
Construction in progress		24,701		24,701
	<u>79,911</u>	<u>\$ 63,950</u>	<u>\$ 79,335</u>	<u>64,526</u>
Less accumulated depreciation	<u>(6,308)</u>	<u>\$ (1,068)</u>	<u>\$ 6,285</u>	<u>(1,091)</u>
Total	<u>\$ 73,603</u>			<u>\$ 63,435</u>
Housing Choice Voucher Program				
Buildings	\$ 1,984	\$	\$	\$ 1,984
Furniture, equip. and machinery- administration	24,202			24,202
	<u>26,186</u>	<u>\$</u>	<u>\$</u>	<u>26,186</u>
Less accumulated depreciation	<u>(26,186)</u>	<u>\$</u>		<u>(26,186)</u>
Total	<u>\$</u>			<u>\$</u>
New Construction Section 8 Program				
Furniture, equip. and machinery- administration	\$ 6,089	\$	\$	\$ 6,089
	<u>6,089</u>	<u>\$</u>	<u>\$</u>	<u>6,089</u>
Less accumulated depreciation	<u>(6,089)</u>	<u>\$</u>	<u>\$</u>	<u>(6,089)</u>
Total	<u>\$</u>			<u>\$</u>
Combined Totals				<u>\$ 968,619</u>

NOTE 5: LONG-TERM DEBT

The Housing Commission borrowed \$19,377 from First Federal Leasing on December 10, 2004. As of September 30, 2006 the balance is \$11,764. The interest rate is 13.43%. The note is secured by a satellite system. There are to be 48 payments of \$524 beginning on January 10, 2005.

The debt payments(principal) for the fiscal years ended September 30, 2007 are (\$4,565); 2008 (\$5,321); and 2009 (\$1,878). The debt payments(interest) for the fiscal years ended September 30, 2007 are (\$1,723); 2008 (\$967); and 2009 (\$127).

Balance at October 1, 2005	\$ 16,486
Principal payments	(4,722)
Balance at September 30, 2006	<u>\$ 11,764</u>
Current portion	\$ 4,565
Noncurrent portion	<u>7,199</u>
Total debt	<u>\$ 11,764</u>

NOTE 6: INVESTED IN CAPITAL ASSETS

Changes in invested in capital assets, net of related debt in the enterprise fund type for the year ended September 30, 2006, consist of the following:

	<u>Invested in Capital Assets</u>
Balance, beginning	\$ 1,051,964
Investment in fixed assets, net of depreciation paid for from operations net of depreciation.	<u>(95,109)</u>
Balance, ending	<u>\$ 956,855</u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations, and net of related debt.

NOTE 7: OTHER INFORMATION

A. Pension Plan

Each employee is covered under a defined benefit plan with the Michigan Municipal Employees Retirement System (MERS) that provides for annual employer contributions with complete vesting after 10 years of service and normal retirement age at 60 years of age. At December 31, 2005, the date of the last completed actuarial evaluation, the Housing Commission's actuarial accrued liabilities for retirement benefits was \$54,427. The valuation of assets to meet this obligation was \$87,225, therefore the overfunded amount is \$32,798. The Housing Commission computed employer contributions as a percentage of payroll of 6.22% for general employees and 9.31% (normal cost) for the Executive Director (of unfunded accrued liability and normal costs) of payroll to cover the employer's cost for current benefits. The minimum required contribution is 6.51% of general employees and 0.00% of the Executive Director wages and an estimated annual contribution of \$5,436. The Housing Commission

made total employer retirement contributions of \$4,162 on covered wages during the year ended September 30, 2006. There are four (4) active members, one (1) vested former member, and no retirees and beneficiaries.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

Transfer completed 2003 (50103) Capital Fund to Low Rent	\$ 52,676
Transfer completed 2003 (50203) Bonus Capital Fund to Low Rent	<u>18,094</u>
Low Rent	<u>\$ 70,770</u>

Public Housing Capital Fund Program

Transfer completed 2003 (50103) Capital Fund to Low Rent	\$(52,676)
Transfer completed 2003 (50203) Bonus Capital Fund to Low Rent	<u>(18,094)</u>
	<u>\$(70,770)</u>

Housing Choice Voucher Program

To remove receivable from HUD for FYE 09/30/05	
- HUD did not reimburse	<u>\$(13,803)</u>

NOTE 8: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes three separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2006, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>	<u>New Construct. Program</u>
Condensed Statement of Net Assets				
Current assets	\$ 163,195	\$ 9,278	\$ 68,591	\$ 43,772
Property & equipment	<u>905,184</u>	<u>63,435</u>	<u>68,591</u>	<u>43,772</u>
Total assets	<u>\$1,068,379</u>	<u>\$ 72,713</u>	<u>\$ 68,591</u>	<u>\$ 43,772</u>
Current liabilities	\$ 45,183	\$ 9,278	\$ 12,794	\$ 3,180
Noncurrent liabilities	<u>11,327</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total noncurrent liabilities	<u>56,510</u>	<u>9,278</u>	<u>12,794</u>	<u>3,180</u>
Net assets:				
Invested in capital assets	893,420	63,435		
Unrestricted net assets	<u>118,449</u>	<u>—</u>	<u>55,797</u>	<u>40,592</u>
Total net assets	<u>1,011,869</u>	<u>63,435</u>	<u>55,797</u>	<u>40,592</u>
Total liabilities & net assets	<u>\$1,068,379</u>	<u>\$ 72,713</u>	<u>\$ 68,591</u>	<u>\$ 43,772</u>
Condensed Statement of Activities				
Dwelling and nondwelling rents	\$ 170,242	\$ —	\$ —	\$ —
Depreciation	(162,713)	(1,068)		
Other operating expenses	<u>(381,286)</u>	<u>(8,404)</u>	<u>(404,569)</u>	<u>(291,270)</u>
Operating(loss)	<u>(373,757)</u>	<u>(9,472)</u>	<u>(404,569)</u>	<u>(291,270)</u>
Nonoperating revenues:				
Investment earnings	3,600		1,539	1,404
Fraud recovery			408	
Other income	12,192		272	
Operating grants	187,313	19,244	454,290	288,816
Capital grants		61,670		
Operating transfers	<u>10,840</u>	<u>(10,840)</u>	<u>—</u>	<u>—</u>
Change in net assets	(159,812)	60,602	51,940	(1,050)
Prior period adjustments	70,770	(70,770)	(13,803)	
Beginning net assets	<u>1,100,911</u>	<u>73,603</u>	<u>17,660</u>	<u>41,642</u>
Ending net assets	<u>\$1,011,869</u>	<u>\$ 63,435</u>	<u>\$ 55,797</u>	<u>\$ 40,592</u>

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>	<u>New Construct. Program</u>
Condensed Statement of Cash Flows				
Net cash provided				
(used) by:				
Operating				
activities	\$ (214,559)	\$ (8,404)	\$ (405,644)	\$ (291,437)
Noncapital				
financing activities	245,080	8,404	418,035	271,333
Capital and related				
financing activities	(7,002)			
Investing activities	<u>2,941</u>	<u> </u>	<u>1,539</u>	<u>1,404</u>
Net increase(decrease)	26,460		13,930	(18,700)
Beginning cash and				
cash equivalents	<u>82,614</u>	<u> </u>	<u>54,661</u>	<u>62,472</u>
Ending cash and cash				
equivalents	<u>\$ 109,074</u>	<u>\$ </u>	<u>\$ 68,591</u>	<u>\$ 43,772</u>

SUPPLEMENTARY INFORMATION

DOWAGIAC HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
September 30, 2006

=====

C-3072	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 109,074	\$ 9,278
Accounts receivable-HUD		
Accounts receivable-tenants	6,948	
Allowance for doubtful accounts	(1,234)	
Accrued interest receivable	40	
Investments-unrestricted	17,584	
Prepaid expenses	7,674	
Due from other programs	<u>23,109</u>	
Total current assets	<u>163,195</u>	<u>9,278</u>

Capital assets:

Land	62,513	
Buildings	3,523,335	15,548
Equipment	277,466	24,277
Building improvements	239,675	
Construction in progress	<u>24,701</u>	
	4,102,989	64,526
Less accumulated depreciation	<u>(3,197,805)</u>	<u>(1,091)</u>
Net capital assets	<u>905,184</u>	<u>63,435</u>
Total Assets	<u>\$ 1,068,379</u>	<u>\$ 72,713</u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$ 68,591	\$ 43,772	\$ 221,437
		9,278
		6,948
		(1,234)
		40
		17,584
		7,674
		<u>23,109</u>
<u>68,591</u>	<u>43,772</u>	<u>284,836</u>
1,984		62,513
24,202	6,089	3,540,867
		332,034
		239,675
		<u>24,701</u>
<u>26,186</u>	<u>6,089</u>	<u>4,199,790</u>
(26,186)	(6,089)	(3,231,171)
		<u>968,619</u>
<u>\$ 68,591</u>	<u>\$ 43,772</u>	<u>\$ 1,253,455</u>

DOWAGIAC HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2006
=====

	C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 16,856	\$
Tenant security deposit liability	19,644	
Accrued expenses	4,000	
Deferred revenues	118	
Current portion of long-term debt	4,565	
Due to other programs		<u>9,278</u>
Total current liabilities	<u>45,183</u>	<u>9,278</u>
Noncurrent liabilities:		
Long-term debt, net of current	7,199	
Accrued compensated absences	<u>4,128</u>	
Total noncurrent liabilities	<u>11,327</u>	
Total liabilities	<u>56,510</u>	<u>9,278</u>
Net Assets:		
Invested in capital assets	893,420	63,435
Unrestricted net assets	<u>118,449</u>	
Total net assets	<u>1,011,869</u>	<u>63,435</u>
Total Liabilities and Net Assets	<u><u>\$1,068,379</u></u>	<u><u>\$ 72,713</u></u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$ 1,324	\$ 648	\$ 18,828
		19,644
114	57	4,171
		118
		4,565
<u>11,356</u>	<u>2,475</u>	<u>23,109</u>
<u>12,794</u>	<u>3,180</u>	<u>70,435</u>
		7,199
		<u>4,128</u>
		<u>11,327</u>
<u>12,794</u>	<u>3,180</u>	<u>81,762</u>
		956,855
<u>55,797</u>	<u>40,592</u>	<u>214,838</u>
<u>55,797</u>	<u>40,592</u>	<u>1,171,693</u>
<u>\$ 68,591</u>	<u>\$ 43,772</u>	<u>\$ 1,253,455</u>

DOWAGIAC HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended September 30, 2006
 =====

	C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 170,242	\$
Nondwelling rent	<u> </u>	<u> </u>
Total operating revenues	<u>170,242</u>	<u> </u>
OPERATING EXPENSES:		
Administration	102,556	8,404
Tenant services	7,260	
Utilities	104,496	
Ordinary maintenance and operation	137,560	
General expenses	27,324	
Interest expense	2,090	
Housing assistance payments		
Depreciation	<u>162,713</u>	<u>1,068</u>
Total operating expenses	<u>543,999</u>	<u>9,472</u>
Operating income(loss)	<u>(373,757)</u>	<u>(9,472)</u>
NONOPERATING REVENUES:		
Operating transfers in (out)	10,840	(10,840)
Investment interest income	3,600	
Fraud recovery		
Other income	12,192	
Capital grants		61,670
Operating grants	<u>187,313</u>	<u>19,244</u>
Total nonoperating revenues	<u>213,945</u>	<u>70,074</u>
Change in net assets	(159,812)	60,602
Prior period adjustments, equity transfers and correction of errors	70,770	(70,770)
Net assets, beginning	<u>1,100,911</u>	<u>73,603</u>
Net assets, ending	<u>\$1,011,869</u>	<u>\$ 63,435</u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$	\$	\$ 170,242
		<u>170,242</u>
64,894	15,346	191,200
		7,260
		104,496
		137,560
528		27,852
		2,090
339,147	275,924	615,071
		<u>163,781</u>
<u>404,569</u>	<u>291,270</u>	<u>1,249,310</u>
<u>(404,569)</u>	<u>(291,270)</u>	<u>(1,079,068)</u>
1,539	1,404	6,543
408		408
272		12,464
		61,670
<u>454,290</u>	<u>288,816</u>	<u>949,663</u>
<u>456,509</u>	<u>290,220</u>	<u>1,030,748</u>
51,940	(1,050)	(48,320)
(13,803)		(13,803)
<u>17,660</u>	<u>41,642</u>	<u>1,233,816</u>
<u>\$ 55,797</u>	<u>\$ 40,592</u>	<u>\$ 1,171,693</u>

DOWAGIAC HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended September 30, 2006
=====

	C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 169,493	\$
Cash payments to other suppliers of goods and services	(220,049)	(8,404)
Cash payments to employees for services	(155,933)	
Cash payments for in lieu of taxes	<u>(8,070)</u>	
Net cash (used) by operating activities	<u>(214,559)</u>	<u>(8,404)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	1,063	
Due from/to other funds	33,672	6,421
Operating transfers in (out)	10,840	(10,840)
Operating grants	187,313	12,823
Fraud recovery		
Other revenue	<u>12,192</u>	
Net cash provided by noncapital financing activities	<u>245,080</u>	<u>8,404</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments of debt	(4,722)	
Capital grants		61,670
Payments for capital acquisitions	<u>(2,280)</u>	<u>(61,670)</u>
Net cash (used) by capital and related financing activities	<u>(7,002)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments (increased)decreased	(647)	
Receipts of interest and dividends	<u>3,588</u>	
Net cash provided by investing activities	<u>2,941</u>	
Net increase(decrease) in cash	26,460	
Cash, beginning	<u>82,614</u>	
Cash, ending	<u>\$ 109,074</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$	\$	\$ 169,493
(363,879)	(282,798)	(875,130)
(41,765)	(8,639)	(206,337)
<u> </u>	<u> </u>	<u>(8,070)</u>
<u>(405,644)</u>	<u>(291,437)</u>	<u>(920,044)</u>
		1,063
(36,935)	(3,158)	
454,290	274,491	928,917
408		408
<u>272</u>	<u> </u>	<u>12,464</u>
<u>418,035</u>	<u>271,333</u>	<u>942,852</u>
		(4,722)
		61,670
<u> </u>	<u> </u>	<u>(63,950)</u>
		(7,002)
		(647)
<u>1,539</u>	<u>1,404</u>	<u>6,531</u>
<u>1,539</u>	<u>1,404</u>	<u>5,884</u>
13,930	(18,700)	21,690
<u>54,661</u>	<u>62,472</u>	<u>199,747</u>
<u>\$ 68,591</u>	<u>\$ 43,772</u>	<u>\$ 221,437</u>

DOWAGIAC HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2006
=====

C-3072	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:**

Cash	\$ 109,074	\$
Restricted cash	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 109,074</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:**

Operating income(loss)	\$ (373,757)	\$ (9,472)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	162,713	1,068
Bad debt allowance	626	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(758)	
Prepaid expenses	230	
Increase (decrease) in liabilities:		
Accounts payable	86	
Accrued wage/payroll taxes payable	17	
Accrued compensated absences	(1,835)	
Accounts payable-PILOT	(1,890)	
Deferred revenues	<u>9</u>	<u> </u>
Net cash (used) by operating activities	<u>\$ (214,559)</u>	<u>\$ (8,404)</u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$ 68,591	\$ 43,772	\$ 221,437
<u>\$ 68,591</u>	<u>\$ 43,772</u>	<u>\$ 221,437</u>
\$ (404,569)	\$ (291,270)	\$ (1,079,068)
		163,781
		626
		(758)
		230
750	191	1,027
(452)	(64)	(499)
(1,373)	(294)	(3,502)
		(1,890)
		<u>9</u>
<u>\$ (405,644)</u>	<u>\$ (291,437)</u>	<u>\$ (920,044)</u>

DOWAGIAC HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2006
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 187,313
	<u>Public and Indian Housing Nonmajor- Direct Program</u>		
2006	Capital Fund Program	14.872	80,914
	<u>Low Income Public Housing Major - Direct Program</u>		
2006	Housing Choice Vouchers	14.871	454,290
	<u>Low Income Public Housing Nonmajor - Direct Program</u>		
2006	New Construction Section 8 Program	14.182	<u>288,816</u>
	Total		<u>\$1,011,333</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

DOWAGIAC HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
 Year Ended September 30, 2006
 =====

FDS Line Item No.		C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 89,326	\$
114	Cash-tenant security deposits	<u>19,748</u>	<u></u>
100	Total cash	<u>109,074</u>	<u></u>
	Receivables:		
122	A/R-HUD other projects		9,278
126	A/R-tenants-dwelling rents	6,948	
126.1	Allowance for doubtful accounts - dwelling rents	(1,234)	
129	Accrued interest receivable	<u>40</u>	<u></u>
120	Total receivables, net of allowance for doubtful accounts	<u>5,754</u>	<u>9,278</u>
	Current Investments:		
131	Investments-unrestricted	<u>17,584</u>	<u></u>
	Other Current Assets:		
142	Prepaid expenses and other assets	7,674	
144	Interprogram due from	<u>23,109</u>	<u></u>
	Total other current assets	<u>30,783</u>	<u></u>
150	Total current assets	<u>163,195</u>	<u>9,278</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	62,513	
162	Buildings	3,523,335	15,548
163	Furn, equip & mach-dwellings	83,970	
164	Furn, equip & mach-admin.	193,496	24,277
165	Building improvements	239,675	
166	Accumulated depreciation	(3,197,805)	(1,091)
167	Construction in progress	<u></u>	<u>24,701</u>
160	Total fixed assets, net of accumulated depreciation	<u>905,184</u>	<u>63,435</u>
180	Total noncurrent assets	<u>905,184</u>	<u>63,435</u>
190	Total Assets	<u>\$ 1,068,379</u>	<u>\$ 72,713</u>

Housing Choice Vouchers 14.871	Section 8 New Construction Program 14.182	Totals
\$ 68,591	\$ 43,772	\$ 201,689
		19,748
<u>68,591</u>	<u>43,772</u>	<u>221,437</u>
		9,278
		6,948
		(1,234)
		<u>40</u>
		<u>15,032</u>
		<u>17,584</u>
		7,674
		<u>23,109</u>
		<u>30,783</u>
<u>68,591</u>	<u>43,772</u>	<u>284,836</u>
		62,513
1,984		3,540,867
		83,970
24,202	6,089	248,064
		239,675
(26,186)	(6,089)	(3,231,171)
		<u>24,701</u>
		<u>968,619</u>
		<u>968,619</u>
<u>\$ 68,591</u>	<u>\$ 43,772</u>	<u>\$ 1,253,455</u>

DOWAGIAC HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2006

=====

FDS Line Item No.		C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 10,676	\$
321	Accrued wage/payroll taxes payable	2,612	
322	Accrued compensated absences	1,388	
331	Accounts payable-HUD PHA programs		
333	Accounts payable-other government	6,180	
341	Tenant security deposits	19,644	
342	Deferred revenues	118	
343	Current portion of long-term debt-capital projects/mortgage revenue bonds	4,565	
347	Interprogram due to	<u> </u>	<u>9,278</u>
310	Total current liabilities	<u>45,183</u>	<u>9,278</u>
	Noncurrent Liabilities:		
351	Long-term debt, net of current	7,199	
354	Accrued compensated absences	<u>4,128</u>	
350	Total noncurrent liabilities	<u>11,327</u>	
300	Total liabilities	<u>56,510</u>	<u>9,278</u>
	Net Assets:		
508.1	Invested in capital assets	<u>893,420</u>	<u>63,435</u>
508	Total invested in capital assets	893,420	63,435
512.1	Unrestricted net assets	<u>118,449</u>	
513	Total Net Assets	<u>1,011,869</u>	<u>63,435</u>
600	Total Liabilities and Net Assets	<u>\$ 1,068,379</u>	<u>\$ 72,713</u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$ 1,324	\$ 349	\$ 12,349
114	57	2,783
		1,388
	299	299
		6,180
		19,644
		118
		4,565
<u>11,356</u>	<u>2,475</u>	<u>23,109</u>
<u>12,794</u>	<u>3,180</u>	<u>70,435</u>
		7,199
		4,128
		11,327
<u>12,794</u>	<u>3,180</u>	<u>81,762</u>
		956,855
		956,855
<u>55,797</u>	<u>40,592</u>	<u>214,838</u>
<u>55,797</u>	<u>40,592</u>	<u>1,171,693</u>
<u>\$ 68,591</u>	<u>\$ 43,772</u>	<u>\$ 1,253,455</u>

DOWAGIAC HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2006

=====

FDS Line Item No.		C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 170,242	\$
704	Tenant revenue-other		
705	Total tenant revenue	<u>170,242</u>	
706	HUD PHA grants	187,313	19,244
706.1	Capital grants		61,670
711	Investment income-unrestricted	3,600	
714	Fraud recovery		
715	Other revenue	<u>12,192</u>	
700	Total revenue	<u>373,347</u>	<u>80,914</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	43,927	7,807
912	Auditing fees	2,450	
914	Compensated absences	(1,834)	
915	Employee benefit contributions-adm.	15,126	597
916	Other operating-administrative	42,887	
	Tenant Services:		
921	Tenant services-salaries	2,000	
924	Tenant services-other	5,260	
	Utilities:		
931	Water	35,838	
932	Electricity	62,620	
933	Gas	6,038	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	65,296	
942	Ordinary maint & oper-mat'ls & other	17,481	
943	Ordinary maint & oper-contract costs	27,017	
945	Employee benefit contributions	27,766	
	General expenses:		
961	Insurance premiums	17,738	
962	Other general expenses		
963	Payments in lieu of taxes	6,180	
964	Bad debt-tenant rents	3,406	
967	Interest expense	<u>2,090</u>	
969	Total operating expenses	<u>381,286</u>	<u>8,404</u>
970	Excess operating revenue over operating expenses	<u>(7,939)</u>	<u>72,510</u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$	\$	\$ 170,242
		170,242
454,290	288,816	949,663
		61,670
1,539	1,404	6,543
408		408
<u>272</u>		<u>12,464</u>
<u>456,509</u>	<u>290,220</u>	<u>1,200,990</u>
26,761	5,792	84,287
1,860	590	4,900
(780)	(189)	(2,803)
13,179	2,489	31,391
23,874	6,664	73,425
		2,000
		5,260
		35,838
		62,620
		6,038
		65,296
		17,481
		27,017
		27,766
		17,738
528		528
		6,180
		3,406
		<u>2,090</u>
<u>65,422</u>	<u>15,346</u>	<u>470,458</u>
<u>391,087</u>	<u>274,874</u>	<u>730,532</u>

DOWAGIAC HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2006
 =====

FDS Line Item No.		C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
973	Housing assistance payments		
974	Depreciation expense	<u>162,713</u>	<u>1,068</u>
	Total other expenses	<u>162,713</u>	<u>1,068</u>
900	Total expenses	<u>543,999</u>	<u>9,472</u>
	Excess (deficiency) of operating revenue over (under) expenses before other financing sources (uses)	(170,652)	71,442
	Other Financing Sources (Uses):		
1001	Operating transfers in (out)	<u>10,840</u>	<u>(10,840)</u>
1000	Excess (deficiency) of operating revenue over (under) expenses	(159,812)	60,602
1103	Beginning Net Assets	1,100,911	73,603
1104	Prior period adjustments, equity transfers and correction of errors	<u>70,770</u>	<u>(70,770)</u>
	Ending Net Assets	<u>\$ 1,011,869</u>	<u>\$ 63,435</u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
339,147	275,924	615,071
<u>339,147</u>	<u>275,924</u>	<u>163,781</u>
404,569	291,270	1,249,310
51,940	(1,050)	(48,320)
<u>51,940</u>	<u>(1,050)</u>	<u>(48,320)</u>
17,660	41,642	1,233,816
(13,803)		(13,803)
<u>\$ 55,797</u>	<u>\$ 40,592</u>	<u>\$ 1,171,693</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Housing Commissioners
Dowagiac Housing Commission
Dowagiac, Michigan

I have audited the financial statements of the business-type activities of the Dowagiac Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated February 22, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 06-1. I don't consider the finding as a material weakness. I also noted certain matters that I reported to management of the Housing Commission, in a separate letter dated February 22, 2007.

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Dowagiac Housing Commission
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bany E. Stankiewicz, CPA, PC

February 22, 2007

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Dowagiac Housing Commission
Dowagiac, Michigan

Compliance

I have audited the compliance of the Dowagiac Housing Commission , Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Dowagiac Housing Commission
Page Two

Compliance (continued)

In my opinion, the Housing Commission, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated January 26, 2007.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sandy E. Taudt, CPA, PC

February 22, 2007

DOWAGIAC HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 September 30, 2006
 =====

A. Summary of Audit Results

Financial Statements

- | | |
|--------------------------------------------------------------------|-------------|
| 1. Type of Auditor's Report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified | No |
| b. Reportable condition identified that is not a material weakness | Yes |
| 3. Noncompliance material to financial statements: | No |

Federal Awards

- | | |
|--------------------------------------------------------------------------------------------------------------------------|-------------|
| 1. Internal control over major programs: | |
| a. Material weakness identified | No |
| b. Reportable condition that is not a material weakness | No |
| 2. Type of auditor's report issued on compliance for major programs | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 | No |
| 4. Identification of major programs: | |

<u>CFDA</u> <u>Number</u>	<u>Federal Program</u>	<u>Amount</u> <u>Expended</u>	<u>Major</u> <u>Program</u>	<u>Compliance</u> <u>Requirement</u>	<u>Questioned</u> <u>Costs</u>	<u>Audit</u> <u>Finding</u>
14.850	Low Rent Public Housing	\$ 187,313	Yes	O	N/A	N/A
14.872	Capital Fund Program	80,914	No	O	N/A	N/A
14.871	Housing Choice Vouchers	454,290	Yes	O	N/A	N/A
14.182	New Construction Section 8	<u>288,816</u>	No	O	N/A	N/A

Total \$1,011,333

5. The threshold for distinguishing Types A and B programs was \$300,000.
6. The Housing Commission was not determined to be a low-risk auditee.

DOWAGIAC HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

B. Financial Statement Findings

Finding 06-1:

Criteria: HUD has used in the past as a guideline \$15 per tenant for accounts receivable as an acceptable amount.

Statement of Condition: The Housing Commission's accounts receivable from tenants was \$6,948 in the Low Rent Program as of September 30, 2006. The receivable is \$81 per tenant.

Questioned Costs: There are no questioned costs.

Perspective Information: The accounts receivable in the prior year was \$6,190 or \$72 per tenant. Vacated tenant receivables represents \$1,061 of the total for the fiscal year ending September 30, 2006 and was zero for September 30, 2005.

Cause and Effect: The Housing Commission's administrative policy regarding collection procedures need to be followed closely.

Recommendation: I recommend that the Housing Commission be diligent in following its policy of collecting delinquent accounts.

Grantee Response: Tenants are no longer able to get months behind. They are immediately taken to the attorney or they must pay in full.

DOWAGIAC HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2006
=====

- Finding 05-1: The Housing Commission's accounts receivable from tenants was \$6,190 in the Low Rent Program as of September 30, 2005. This represents \$72 per tenant above the \$15 that HUD has used as a guideline in the past. Finding 06-1 is a repeat finding.
- Finding 05-2: The Housing Commission obtained in August 2007 depository agreements from its banks, therefore, this finding is cleared.
- Finding 05-3: The Housing Commission had not done a utility allowance study since 2001. It should be noted that a consultant performed a utility study after the fiscal year ended September 30, 2006 and the the Housing Commission performed its own utility allowance study during the fiscal year. This finding has been cleared.
- Finding 05-4: The Housing Commission did not have a resident council to decide how to spend the \$25 per tenant included in the calculation of the operating subsidy. Housing Commission's with less than 250 tenants are not required to have a resident council. This finding has been cleared.
- Finding 05-5: There were two concerns open from a HUD Independent Assessment and Management Review. This finding has been cleared.

DOWAGIAC HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2006

DOWAGIAC HOUSING COMMISSION
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SEPTEMBER 30, 2006

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Dowagiac Housing Commission

I have audited the financial statements of the Dowagiac Housing Commission ("Housing Commission") as of and for the year ended September 30, 2006, and have issued my report, thereon, dated February 22, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). There were no audit adjustments that were necessary to make.

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - The Housing Commission had a complete change in the office staff, therefore the individuals we worked with were not responsible for the tenant files, compliance and financial statements for the fiscal year ending September 30, 2006. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Barry E. Anderson, CPA, PC

February 22, 2007

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Dowagiac Housing Commission

I have audited the financial statements of the Dowagiac Housing Commission ("Housing Commission") as of and for the year ended September 30, 2006, and have issued my report, thereon, dated February 22, 2007. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed several material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

February 22, 2007

DOWAGIAC HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
September 30, 2006
=====

Washer and Dryer Cash Collections

During our interviews of employees, the employee that collects laundromat monies also makes the deposit. It was the understanding of the Executive Director that two individuals were collecting the monies.

We recommend that to improve internal controls in the collection of laundromat monies, that two individuals collect the monies and that the person making the deposit provides a bank receipt to other the individual to review.

Landlords in the Housing Choice Voucher Program

During our interviews with employees, it was discovered that third party verification of the ownership for the landlords in the program had not been done in the past, but the new Executive Director has began obtaining the proof of ownership of landlords in August of 2006.

Although, we don't believe that HUD requires proof of ownership, we think that it improves the internal controls of the Housing Commission and reduces the possibility of fraud and the payment of funds to parties ineligible to receive them.

DOWAGIAC HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

September 30, 2006

=====

Housing Choice Voucher Program Tenant File Test

We selected at random six(6) tenant files to test. There was a population of 85 tenant files to choose from. We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. Form HUD-50058	0
b. Privacy Act Notice	1
c. Proper Verification of Income	0
d. Proper Verification of Expenses	2
e. Proper Verification of Assets	2
f. Inspection Report	0
g. Lease	0
h. Application	0
i. Copy of Photo I.D.	3
j. Copy of Proof of Social Security Number	1
k. Copy of Birth Certificate	2
l. Annual Review	0
m. Worksheet for HUD-50058	0
n. Notice of Rent Adjustment	0
o. Criminal Background Check	3
p. Declaration of 214 Status	3
q. Lead Based Paint Disclosure	3
r. Authorization for Release of Information	0
s. Request for Tenancy Approval	2
t. Voucher	0
u. HAP Contract	1
v. HAP Tenancy Addendum	1
w. Rent Reasonableness Test	1
x. Inspection-Life Threatening Corrections made less than 24 hours	1
y. Inspection-Corrections made less than 30 days or by granted extension	1
z. Proper action taken if x or y violated	0
aa. Family Compilation Review	<u>0</u>

27

Out of a possible 162, there were 27 exceptions from this test.
This represents an exception rate of 16.6%

DOWAGIAC HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

September 30, 2006

=====

Housing Choice Voucher Program Tenant File Test (Continued)

The following is a short summary of exceptions:

<u>File</u>	<u>Client #</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	V-001-0022-07	x		x					x	
2	V-002-000113	x							x	
3	V-002-000020			x					x	
4	V-002-000048	x		x					x	
5	000114									
6	V-002-000063			x		x	x		x	
Number of Hits		<u>3</u>	<u>0</u>	<u>4</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>5</u>	<u>0</u>
% of Hits		<u>50%</u>	<u>0%</u>	<u>67%</u>	<u>0%</u>	<u>17%</u>	<u>17%</u>	<u>0%</u>	<u>83%</u>	<u>0%</u>

Legend

1. Criminal background check not conducted.
2. Check for eviction from federal housing not conducted.
3. Income/expense/asset verification not complete.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD Form 9886, release of information/privacy act notice not in the file or not properly completed.
6. Social security number not verified with required documentation.
7. The Housing Commission could not locate the file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

We recommend the Housing Commission continue to obtain the necessary documentation for this program.

DOWAGIAC HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

September 30, 2006

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Low Rent Public Housing Program Tenant File Test

We selected at random six(6) tenant files to test. There was a population of 83 tenant files to choose from. We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. Form HUD-50058	0
b. Privacy Act Notice	0
c. Proper Verification of Income	0
d. Proper Verification of Expenses	0
e. Proper Verification of Assets	0
f. Inspection Report	0
g. Lease	0
h. Application	1
i. Copy of Photo I.D.	1
j. Copy of Social Security Number Verification	0
k. Copy of Birth Certificate	2
l. Annual Review	0
m. Worksheet for HUD-50058	0
n. Notice of Rent Adjustment	0
o. Criminal Background Check	1
p. Declaration of 214 Status	2
q. Authorization for Release of Information	1
r. Public Housing Choice of Rent	1
s. Inspection Deficiencies Corrected	3
t. Family Composition Review	<u>0</u>
	<u>12</u>

Out of a possible 120, there were 12 exceptions from this test. This represents an exception rate of 10.0%.

DOWAGIAC HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
(Continued)

September 30, 2006

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Low Rent Public Housing Program Tenant File Test (continued)

The following is a short summary of exceptions:

<u>File</u>	<u>Client #</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	P-002-0502									
2	P-002-0613									
3	P-01-0025									
4	P-001-0017-7	x							x	
5	P-002-0211									
6	P-002-0602	—	—	—	—	—	—	—	—	—
Number of Hits		<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>—</u>
% of Hits		<u>17%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>17%</u>	<u>0%</u>

Legend

1. Criminal background check not conducted.
2. Check for eviction from federal housing not conducted.
3. Income/expense/asset verification not complete.
4. Form HUD-50058 Form could not be located in the tenant files.
5. HUD Form 9886, Release of Information/Privacy Act Notice is not completed properly for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the file.
8. The Housing Commission could not locate missing documentation.
9. The tenant was not eligible to participate in the program.

Although, the exception rate was very low, we recommend the Housing Commission continue to improve the documentation for this program.

DOWAGIAC HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2006

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no audit adjusting journal entries.